State of Idaho DEPARTMENT OF INSURANCE

CECIL D ANDRUS
Governor

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Acting Director

BULLETIN 91-5

MEMORANDUM

DATE: June 13, 1991

TO: All Agents and Property and Casualty Insurers

FROM: George J. Neumayer

Acting Director

SUBJECT: Overinsurance

Recent inquiries to the Idaho Department of Insurance have outlined a scenario in which lenders insist on homeowners insurance equal to the amount of the loan versus the value of the property. This scenario creates an overinsurance in contradiction of the definition of insurable interest for property as provided in Idaho Code Section 41-1806.

Property insurance claims are settled on the basis of the value of the property and not the face amount of the policy. Thus, a borrower who is pressured to buy coverage in excess of the value of the property acquires no greater insurance coverage than the actual cash value or replacement cost of the property. Therefore, it is the opinion of the Department that no purpose is served by a lender requiring, or an insurance company issuing property insurance in excess of the appropriate value of the property.